



STATE OF MAINE
GOVERNOR'S OFFICE OF HEALTH POLICY AND FINANCE
15 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0078



JOHN ELIAS BALDACCI
GOVERNOR

TRISH RILEY
DIRECTOR

NOTICE

To: Interested Parties
From: Trish Riley, Director
RE: Proposed Value of Capital Investment Fund (CIF)
Date: November 21, 2006

Pursuant to Chapter 101 of its rules, the Governor's Office of Health Policy and Finance (GOHPF) is issuing this Notice. Its purpose is to notify the public of the proposed value of the Capital Investment Fund (CIF) and to solicit public comment regarding that amount.

The CIF is a limit on the total third year operating costs that may be approved under the Certificate of Need program each year. Statutory provisions establishing the CIF were included in the Dirigo Health Reform Act, enacted in 2003.

The policy rationale for the CIF is that: (a) capital investments add costs to our health care system, (b) for a variety of reasons going far beyond capital investment, the level of cost growth in our system has become unsustainable; and (c) placing a limit on investment -- and prioritizing projects within that limit -- can play a meaningful role in reducing cost growth by ensuring that: (i) we do not add unnecessary costs to the system, and (ii) investments are targeted to ensure the greatest benefit in terms of meeting the population's health care needs.

The discussion below outlines the steps from the rule followed by GOHPF to arrive at the CIF amount.

Sections (3)(A-C) of chapter 101 require the Office to calculate a starting value for the CIF as follows:

- Subsection (A)(1). The first step in the calculation of the CIF is to determine average total third year costs for hospital projects approved under CON in each of the last 5 years,* spreading the cost of projects with costs greater than \$2 million over multiple years, counting no more than \$2 million per year, and inflating each year's total to 2006 dollars.

The result of this computation is \$10,126,216.

- Subsection (A)(2). The next steps in the process of calculating the CIF involve allocating the average third year costs, determined above, into inpatient and outpatient portions of the CIF, and adjusting each for differences between Maine and New England costs.

* These are preliminary numbers pending final Department review on small projects in 2006. Numbers will be finalized pending final Department action on those applications.

(a) The table below shows percentages of hospital gross patient revenue attributable to inpatient care 2002-2005, according to audited financial statements and Medicare Cost Reports filed with the Maine Health Data Organization. The 2006 proportion is derived by carrying the 2002-2005 trend forward.

2002	2003	2004	2005	2006
56%	53%	52%	50%	48%

For 2006, the inpatient portion of the CIF prior to cost adjustment is $\$10,126,216 \times 48\% = \$4,873,336$.

(b) Next, we are to adjust for differences between the average cost per discharge, adjusted for variations in wages and case mix, in Maine (\$7506) and that of New England (\$6067). The New England average is 81% of the Maine average ($\$6067/\$7506 = 81\%$). The adjustment called for in this step, therefore, is made by multiplying the Maine value by 0.81. The adjusted inpatient portion of the CIF is equal to:

$$\$4,873,336 \times 0.81 = \$3,939,053.$$

(c) The next step in the process is to find the outpatient portion of the average third year capital and operating costs. The table below shows percentages of gross patient revenue attributable to outpatient care in 2002-2005, according to audited financial statements and Medicare Cost Reports. The 2006 proportion is derived by carrying the 2002-2005 trend forward.

2002	2003	2004	2005	2006
44%	47%	48%	50%	52%

For 2005, the outpatient portion of the CIF prior to cost adjustment is:

$$\$10,126,216 \times 52\% = \$5,252,880.$$

(d) The rule then instructs us to adjust for differences between the median cost per unit of outpatient activity, adjusted for variations in wages and case mix, in Maine (\$90.99) and New England (\$88.14).

Multiplying the Maine amount by 0.97 makes this adjustment (i.e., $\$90.99 \times 0.97 = \88.14), so the adjusted outpatient portion of the CIF is $\$5,252,880 \times 0.97 = \$5,088,466$.

(e) The next step in the mathematical computation is adding the adjusted inpatient and outpatient portions. This renders a total of \$9,027,519.

- Subsection (A)(3). If necessary, the amount calculated using the mathematical formula in the rule shall be adjusted to correlate with the number of months the CIF is to apply to, should that number vary from twelve months. No such adjustment is necessary in this year.

- Subsection (A)(4). The rule requires and adjustment to the amount calculated above to reflect differences between the rate of growth in per capita income in Maine and the rate of growth in per capita health care expenditures.

Between 2005 and 2006 the estimated rate of growth of per capita health care expenditures (6.64%) exceeded the estimated rate of growth of per capita income (3.05%) by 3.59%. The amount is therefore adjusted downwards by 3.59%, yielding \$8,703,464. This is the hospital portion of the CIF.

- Subsection (B). The hospital portion of the Capital Investment Fund is to equal 87.5% of the total Fund value. In order to calculate the total Fund value, then, the value of the hospital portion must be “grossed up” by 87.5%.

$$\$8,703,464 / 0.875 = \$9,946,816.$$

This is the total value of the CIF. The non-hospital portion of the CIF is the remaining 12.5% of the CIF, or \$1,243,352.

- Subsection (C). Within both the hospital and non-hospital components of the Capital Investment Fund, an allocation must be made for large projects and small projects. Within each component, ten percent (10%) of the total Capital Investment Fund component is set aside for small projects; the remainder is allocated to large projects.

	Small projects	Large Projects	Total
Non-Hospital	\$124,335	\$1,119,017	\$1,243,352
Hospital	\$870,346	\$7,833,118	\$8,703,464
Total			\$9,946,816

- Section D of the rule instructs the Office to examine the results of these calculations in light of three additional considerations, described below.

(1) Adequacy against, at a minimum, the criteria for the Capital Investment Fund set forth at 2 MRSA chapter 5 section 102(2). The Capital Investment Fund is to be further adjusted if the Office finds it does not adequately reflect the considerations listed below. The criteria include:

- (a) The State Health Plan developed in accordance with 2 MRSA chapter 5 section 103;
- (b) The opportunity for improved operational efficiencies in the state's health care system;
- (c) The average age of the infrastructure of the state's health care system;
- (d) Technological developments and the dissemination of technology in health care; and
- (e) Unused balance remaining in the Capital Investment Fund from a prior year.

(2) Any input the Office receives from an expert consultants; solicitation of this type of input is at the discretion of the Office; and

(3) Guidance from the Advisory Council on Health Systems Development (ACHSD).

Under the first consideration, the Office notes that Maine has the second youngest age of plant in the Northeast, behind only New Hampshire, and that Maine is the only state in the Northeast whose age of plant declined from 2000 to 2004 (Table 1). Additionally, Maine's capital expenditure growth rate (Table 2) and capital costs per discharge (Table 3) are consistent with benchmarks, suggesting that Maine has an adequate rate of capital investment.

Table 1. Average Age of Plant (years)¹

	2000	2001	2002	2003	2004
ME	9.71	9.77	9.32	9.57	9.43
NH	8.28	8.21	7.89	7.74	8.8
VT	9.62	9.97	9.92	9.22	10.36
MA	9.56	9.58	9.67	10.29	10.24
CT	9.49	10.54	10.27	10.59	11.11
NJ	9.93	10.59	11.05	10.61	10.86
NY	10.16	11.7	11.79	11.58	12.07
PA	10.43	11.32	11.5	12.02	11.24
RI	9.91	10.33	11.47	11.8	11.69
NE	9.82	10.54	10.83	10.65	10.57
Rural	9.71	9.94	10.03	9.97	10.04
All	9.4	9.67	9.76	9.82	9.77

Table 2. Capital Expenditure Growth Rates

	2000	2001	2002	2003	2004
ME	11.0%	8.0%	6.9%	6.6%	6.4%
NH	5.3%	8.8%	7.3%	6.4%	6.5%
VT	6.0%	6.3%	6.5%	5.7%	6.9%
MA	5.5%	4.7%	5.9%	6.5%	6.6%
CT	4.3%	3.8%	5.2%	4.9%	5.2%
NJ	4.0%	4.8%	5.3%	6.4%	7.6%
NY	4.7%	3.9%	4.4%	4.6%	4.9%
PA	5.5%	4.8%	6.0%	5.4%	4.6%
RI	6.7%	5.8%	9.9%	8.3%	8.8%
NE	5.5%	5.1%	5.6%	5.8%	6.4%
Rural	6.1%	6.0%	5.7%	5.7%	5.5%
All	6.4%	6.2%	6.2%	6.4%	6.3%

Table 3. Capital Costs per Discharge (Adjusted for Wage Index & Case Mix)

	2000	2001	2002	2003	2004
ME	\$414.14	\$506.33	\$468.29	\$469.90	\$484.02
NH	\$445.07	\$545.62	\$431.54	N/A	\$418.38
VT	N/A	N/A	N/A	N/A	N/A
MA	\$161.32	\$153.31	\$177.54	\$144.25	\$299.78
CT	N/A	N/A	\$369.20	N/A	\$320.73
NJ	\$423.16	\$392.20	\$463.75	N/A	\$384.81
NY	\$358.17	\$384.17	\$310.13	\$356.44	\$356.15
PA	\$321.77	\$344.64	\$361.99	\$393.02	\$432.34
RI	\$280.30	\$255.88	\$274.01	\$288.43	N/A
NE	\$281.22	\$295.66	\$309.46	\$280.51	\$391.85
Rural	\$404.39	\$396.25	\$407.54	\$424.58	\$431.33

¹ Source for all three tables: 2006 Almanac of Hospital Financial and Operating indicators. Ingenix, 2005.
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All	\$400.06	\$395.29	\$412.28	\$398.32	\$440.83
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We also note that the Maine Quality Forum has indicated that there are no technological developments that would require an adjustment to the Fund.

There is no need to roll over any unused balance from the previous CIF. \$6,893,645 in hospital projects was approved under the previous CIF, leaving of an unused hospital balance of only \$178,549, and no projects were turned down because of insufficient credits. Additionally, after debiting the spread costs of extraordinary projects from previous years (specifically, \$1,527,391 for Eastern Maine Medical Center's Outpatient Cancer Center) against the 2007 CIF, there will still be \$7,176,073 available for new hospital projects. It is possible for total approvals to exceed this amount because of the rule's section 5, which instructs that the costs of large projects will be spread over multiple years for purposes of debiting against the CIF. The rule is constructed in this matter so as to preclude a circumstance where a single large project monopolizes an entire year's Capital Investment Fund. By spreading the cost of very large projects over multiple years, the maximum "hit" of any one project in a single year is limited to \$2 million.

With regard to the second consideration, the Office elected not to consult with outside experts.

Finally, this notice has been sent to members of the Advisory Council on Health Systems Development (ACHSD). GOHPF and the ACHSD will jointly conduct a public hearing on the proposed value (see below for date and location), and the ACHSD will provide comments on the CIF value to GOHPF after the hearing and before GOHPF determines the final CIF value.

Based on these considerations, the Office believes the calculated amount strikes an appropriate balance of containing costs while allowing adequate hospital capital improvements, and we elect to make no further adjustments to the CIF calculation and propose the amounts below.

	Small projects	Large Projects	Total
Non-Hospital	\$124,335	\$1,119,017	\$1,243,352
Hospital	\$870,346	\$7,833,118	\$8,703,464
Total			\$9,946,816

A public hearing will be held December 8, 2006, from 9:00 AM - 11:00 AM, at the University of Maine Center for Community Inclusion and Disability Studies, 225 Western Avenue, Augusta, for the purpose of taking public comment on the proposed level of the Fund. Commenters are specifically asked to address errors in computation on the Fund amount given the governing rule, as well as advances in technology that should be considered when sizing the Fund.

Persons requiring special assistance in order to participate in the public hearing must notify the Office no later than December 4, 2006, so that appropriate arrangements may be made to accommodate their needs. Written comments regarding the Fund level will be accepted through 5:00 PM, December 18, 2006. All comments are to be directed to: Peter Kraut, Governor's Office of Health Policy and Finance, 15 State House Station, Augusta, ME, 04333-0015; Phone (207) 624-7442; Fax (207) 624-7608; TTY (207-287-6548). Comments may be submitted electronically to Mr. Kraut's attention at peter.kraut@maine.gov.